

## CHAPTER 26

### WATER POLLUTION CONTROL WORKS AND DRINKING WATER FACILITIES FINANCING

265—26.1(16) Statutory authority. The authority to provide loans to eligible applicants to assist in financing drinking water and wastewater treatment facilities and water pollution control projects is provided by Iowa Code sections [16.131](#) through [16.133](#).

265—26.2(16) Purpose. The Iowa finance authority provides financing to carry out the functions of the state revolving fund (SRF) loan programs. Under an agreement with the United States Environmental Protection Agency, the Iowa SRF is administered by the Iowa department of natural resources in partnership with the Iowa finance authority. The authority and the Iowa department of natural resources administer the SRF programs under the terms of interagency agreements entered into pursuant to Iowa Code chapter [28E](#).

265—26.3(16) Definitions.

“*Authority*” or “*IFA*” means the Iowa finance authority.

“*Clean Water Act*” or “*CWA*” means the federal Water Pollution Control Act of 1972, as amended by the Water Quality Act of 1987.

“*Commission*” means the environmental protection commission of the Iowa department of natural resources.

“*Department*” or “*DNR*” means the Iowa department of natural resources.

“*Director*” means the director of the authority.

“*DWSRF*” means the drinking water state revolving fund.

“*Eligible costs*” means all costs related to the completion of a project as defined in the CWA and SDWA and [567—Chapters 40](#) and [90](#).

“*EPA*” means the United States Environmental Protection Agency.

“*Intended use plan*” or “*IUP*” means the program document identifying the intended uses of funds available for loans pursuant to the WPCSRF and the DWSRF.

“*Nonpoint source*” means any project described in Section 319 of the Clean Water Act.

“*Recipient*” means the entity receiving funds from the SRF.

“*Safe Drinking Water Act*” or “*SDWA*” means Title XIV of the federal Public Health Service Act, commonly known as the “Safe Drinking Water Act,” as amended by the Safe Drinking Water Amendments of 1996.

“*SRF*” means the state revolving fund.

“*WPCSRF*” means the water pollution control state revolving fund.

265—26.4(16) Project funding.

26.4(1) *Intended use plans/state project priority lists*. The state project priority lists shall include projects eligible for SRF loans as provided in [567—Chapters 44](#) and [92](#). The authority will consider the following when determining whether to provide a loan to an eligible recipient:

- a. Recipient’s financial capability to repay the loan and to provide operation and maintenance, replacement reserves, and, if required, debt service reserves;
- b. Recipient’s statement of willingness to accept all loan terms and conditions;
- c. The priority of the project;
- d. Funds available; and
- e. The technical review and approval of the project by the department.

26.4(2) *Phased or segmented projects*. Loan funds for future portions of phased or segmented projects cannot be ensured, although subsequent segments of a project which has been awarded financial assistance will receive priority over other new projects. Loans made for separate phases or segments of a project will be administered separately.

26.4(3) *Loan adjustments*. Loan amounts may be adjusted to reflect eligible costs.

26.4(4) *Recipient record keeping*. The recipient shall maintain records that document all costs associated with the project. Moneys from the SRF and those contributed by the recipient shall be accounted for separately. Accounting procedures shall conform to generally accepted government accounting standards. The recipient shall agree to provide access to these records to the department, the authority, the state auditor, the state or EPA, and the Office of the Inspector General at the EPA. The recipient shall retain such records and documents for inspection and audit purposes for a period of three years from the date of the final loan payment.

26.4(5) *Site access*. The recipient shall agree to provide the department and the department’s agent access to the project site at all times to verify that the loan funds are being used for the intended purpose and that the construction work meets all applicable state and federal requirements. Recipients shall also agree to provide the department periodic access to the project site for the duration of the loan to ensure that the project is being operated and maintained as designed.

26.4(6) *Cross-cutting laws.* Other federal and state statutes and programs may affect an SRF project. Loan agreements will include an assurance that a recipient will comply with all applicable federal and state requirements.

265—26.5(16) WPCSRF/DWSRF infrastructure construction loans.

26.5(1) *Loan agreements.* The authority will prepare a loan agreement when the application has been determined to be in compliance with the requirements of the CWA/SDWA and applicable state rules for SRF funding. The loan shall be accompanied by an enforceability opinion in a form acceptable to the authority and, if applicable, a bond counsel opinion as to the status of interest on the obligation, in a form acceptable to the authority. A copy of the current form of the loan agreement shall be provided to the applicant upon request.

26.5(2) *Loan rates and terms.* Loan terms for point source projects shall include the following:

a. *Interest rates.* Loan interest rates shall be established in the IUP and shall be established by taking into account factors including, but not limited to, the following:

- (1) Interest rate cost of funds to the SRF;
- (2) Availability of other SRF funds;
- (3) Prevailing market interest rates of comparable non-SRF loans; and
- (4) Long-term SRF viability.

b. *Loan initiation fee.* The loan initiation fee shall be established in the IUP. The fee shall be payable on the closing date of the loan agreement.

c. *Annual loan servicing fee.* The annual loan servicing fee shall be established in the IUP. The fee shall be due at the time of each annual principal repayment.

d. *Revenue pledge.* The recipient shall establish sufficient revenue sources that are acceptable to the director for the repayment of the loan. To ensure repayment of obligations according to the terms of the loan agreement, the recipient shall agree to impose, collect, and increase, if necessary, user charges, taxes, or other dedicated revenue sources identified for the loan repayment in order to maintain annual net revenues at a level equal to at least 110 percent of the amount necessary to pay debt service on all revenue obligations during the next fiscal year, provided, however, that, at the discretion of the director, the authority may allow other revenue sources and coverage of less than 110 percent as security. In case of loan default, the authority shall have authority to require revenue adjustment, through the manner described above, to collect delinquent loan payments.

e. *Security.* The loan shall be secured by a first lien upon the dedicated source of repayment which may rank on a parity basis with other obligations. The dedicated source of repayment is expected to be the net revenues of the recipient's system and the loan is expected to be secured by a first lien on said net revenues. Loans secured by revenues of a system may rank on a parity basis with other outstanding obligations or, with the approval of the director, may be subordinate in right of payment to the recipient's other outstanding revenue obligations. Loans may also be secured by a general obligation of the recipient through the provision for a levy of taxes to repay the loan.

f. *Construction payment schedules.* An estimated construction drawdown schedule provided by the recipient shall be part of the loan agreement.

26.5(3) *Loan commitments.* A loan agreement shall be a binding commitment of the recipient.

26.5(4) *Purpose of payments.* The recipient shall use the proceeds of the WPCSRF/DWSRF loan solely for the purpose of funding the approved project.

26.5(5) *Costs.* All eligible costs must be documented to the satisfaction of the authority and the department before proceeds of the loan will be disbursed.

26.5(6) *Loan amount and repayment period.* All loans shall be made contingent on the availability of funds and shall be for a minimum of \$50,000, the maximum loan term will be that allowed by EPA, and repayment of the loan must begin no later than one year after the project is completed or by the date specified in the loan agreement.

26.5(7) *Prepayment.* No prepayment of the loan principal may be made within the first ten years of the loan term, other than those repayments resulting from a loan agreement adjustment based on final costs.

265—26.6(16) Planning and design loans.

26.6(1) *Timing of loan.* Prior to a recipient's execution of a loan agreement for project construction, funds may be loaned to the recipient to pay for initial eligible costs, including the cost of facility planning and design engineering.

26.6(2) *Duration.* Planning and design loans may not have a duration of longer than three years from their date of execution.

26.6(3) *Interest rate.* The interest rate will be that rate specified in the most recent IUP.

26.6(4) *Rollover to construction loan.* All funds borrowed by the recipient as a planning and design loan may be financed as a part of a construction loan agreement upon expiration of the term of the planning and design loan.

26.6(5) *Repayment.* If the recipient does not execute an SRF construction loan, the planning and design loan shall be paid in full at the end of the three-year term.

265—26.7(16) Disadvantaged community status.

26.7(1) *Criteria for disadvantaged community status.* The authority, in conjunction with the department, may develop criteria to determine disadvantaged community status, based on the community's median household income and target user charges. Criteria to determine disadvantaged community status shall be established in the IUP.

26.7(2) *Interest rate.* Interest rates for disadvantaged communities shall be established in the IUP.

265—26.8(16) WPCSRF nonpoint source set-aside loan programs.

26.8(1) *Nonpoint source loan assistance.* Loan assistance for nonpoint source projects shall be in the form of low-interest loans or pass-through loans or through linked deposits through participating lending institutions.

26.8(2) *Application for loan assistance.* Application for loan assistance may be made at any participating lending institution or submitted to the authority or the authority's agent, as applicable. A list of participating lending institutions will be made available by the authority, financial agent or other entity that the authority may use to administer this program. Application for loan assistance shall be made on forms provided by the authority or its agent.

26.8(3) *Project approval.* Each project must be approved by the appropriate environmental or conservation agency as determined by the department.

26.8(4) *Loan approval.* For linked deposit programs, the participating lending institution shall, upon receipt of a completed loan application form, either approve or deny the loan in accordance with the program requirements. If the loan is approved, the lending institution shall notify the authority or its agent in order to reserve funds in that amount to ensure that funds are available at the time of disbursement. If the loan is denied, the lending institution shall notify the loan applicant, clearly stating the reasons for the loan denial. For low-interest loans with the authority, the authority, or its agent, shall notify the applicant of the loan approval or denial.

26.8(5) *Availability of funds.* Before acting on a loan application, the lending institution shall ensure that adequate funds are available for the project and that the completed project has been inspected and approved by the appropriate environmental or conservation agency as determined by the department.

26.8(6) *Property transfer.* In the event of property transfer from the applicant to another person or entity during the repayment period specified in the loan agreement, the balance of the loan shall be immediately due in full.

26.8(7) *Loan amount and period.* All loans shall be made contingent on the availability of funds in the applicable fund or set-aside program as indicated in the IUP. The minimum and maximum loan amounts that will be considered are dependent on project type and are set forth as follows:

Type of Project	Type of Assistance	Minimum Loan Amount	Maximum Loan Amount	Maximum Loan Term	Project Approval Agency
General Nonpoint Source	Low-interest loans or linked deposit	\$5,000	No maximum	20 years	DNR
Local Water Protection	Linked deposit	\$5,000	\$50,000	10 years	Division of Soil Conservation DNR
Livestock Water Quality Facilities	Pass-through loans	\$10,000	Not to exceed 50% of the livestock water quality set-aside	Equal to expected life of facility but no greater than 20 years.*	DNR
Onsite Wastewater Systems Assistance	Linked deposit	\$2,000	No maximum	10 years	County Sanitarian

\*If the loan is made only for preparation of a comprehensive nutrient management plan, the loan period shall not exceed 5 years.

26.8(8) *Prepayment.* For direct loans, prepayment of the loan principal in whole or in part shall be allowed without penalty.

26.8(9) *Loan adjustments*. If the eligible costs exceed the loan amount, the recipient may request an increase in the loan amount. The lending institution is authorized to execute a loan for a principal amount of up to 10 percent above the amount of the loan application if the eligible costs exceed the application amount. To determine the appropriate action, the authority will evaluate the request by considering available moneys in the fund as well as the financial risk. Should the eligible costs be less than the loan amount, the loan shall be appropriately adjusted.

26.8(10) *Disbursement of funds*. Funds shall be disbursed in accordance with the loan agreement. The loan agreement may allow for periodic disbursement of funds.

26.9—26.9(16) Termination and rectification of disputes.

26.9(1) *Termination*. The authority shall have the right to terminate any loan if a term of the agreement has been violated. Loans are subject to termination if construction has not begun within one year of the execution of a loan agreement. The director will establish a repayment schedule for funds already loaned to the recipient. Every termination must be in writing.

26.9(2) *Rectification and disputes*. Failure of the recipient to implement the approved project or to comply with the applicable requirements constitutes grounds for the authority, the authority's agent, or the participating lending institution to withhold loan disbursements. The recipient is responsible for ensuring that the identified problem(s) is rectified. Once the deficiency is corrected, the loan funds can be released. A recipient that disagrees with the director's withholding of loan funds may request a formal review of the action. The recipient must submit to the director a written request for a formal review of the action within 30 days of receiving notice that loan disbursements will not be released.

These rules are intended to implement Iowa Code sections [16.5\(17\)](#) and [16.133](#).

[Filed 1/13/06, Notice 9/28/05—published 2/1/06, effective 3/8/06]